

The Alaska Economy: How Does It Work?

by

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We The People Alaska

Institute of the North

Anchorage School District

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The Alaska Economy: How Does It Work?

Primary Financial Support from



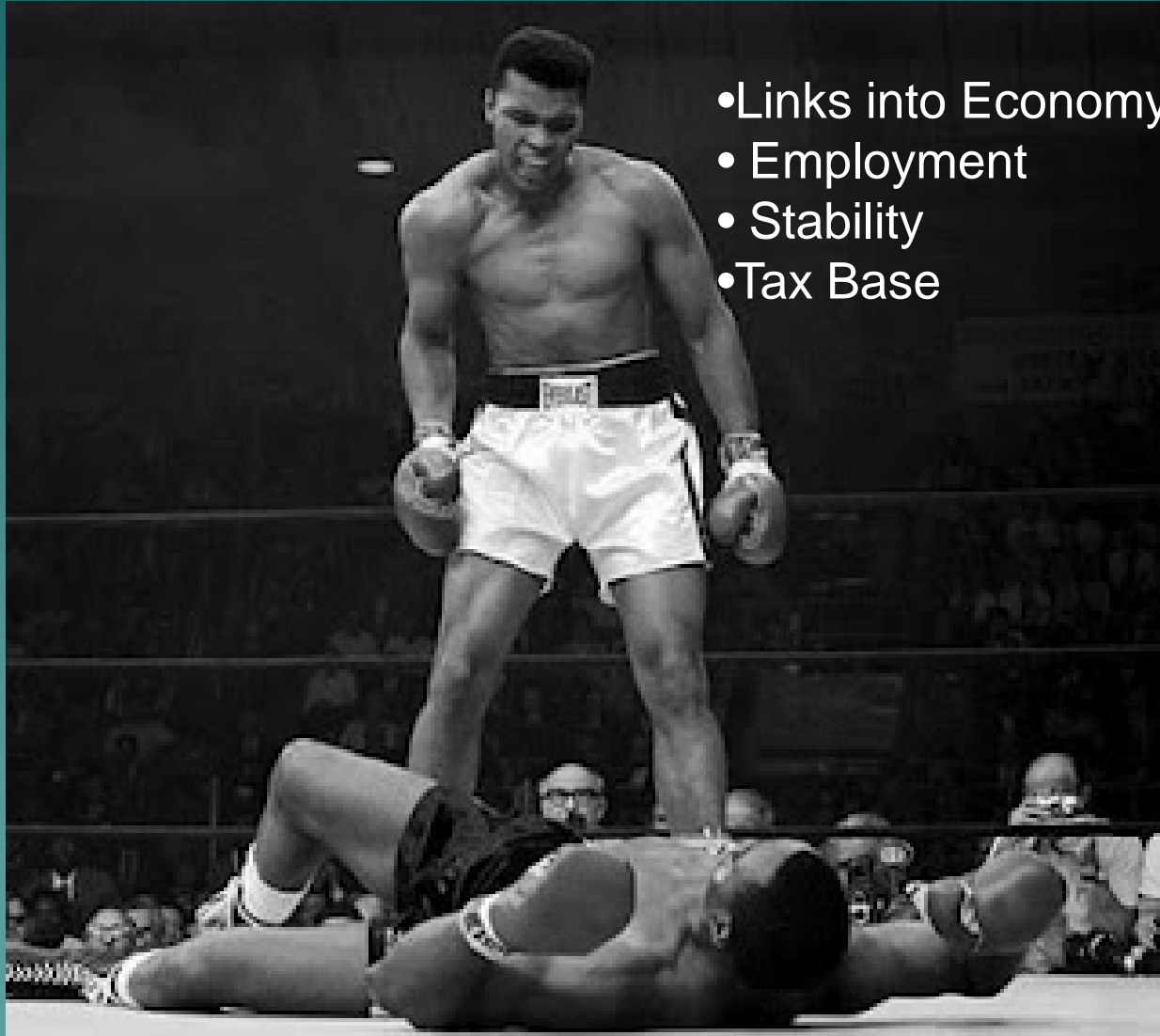
The Alaska Economy Runs on \$\$\$ From Outside



Support Activities Depend on Dollars Coming Into Alaska



Some \$\$\$ Pack a Bigger Punch



- Links into Economy
- Employment
- Stability
- Tax Base

The Alaska Economic Structure: The Myth



The Reality



The Alaska Economy Stands on 3 Legs

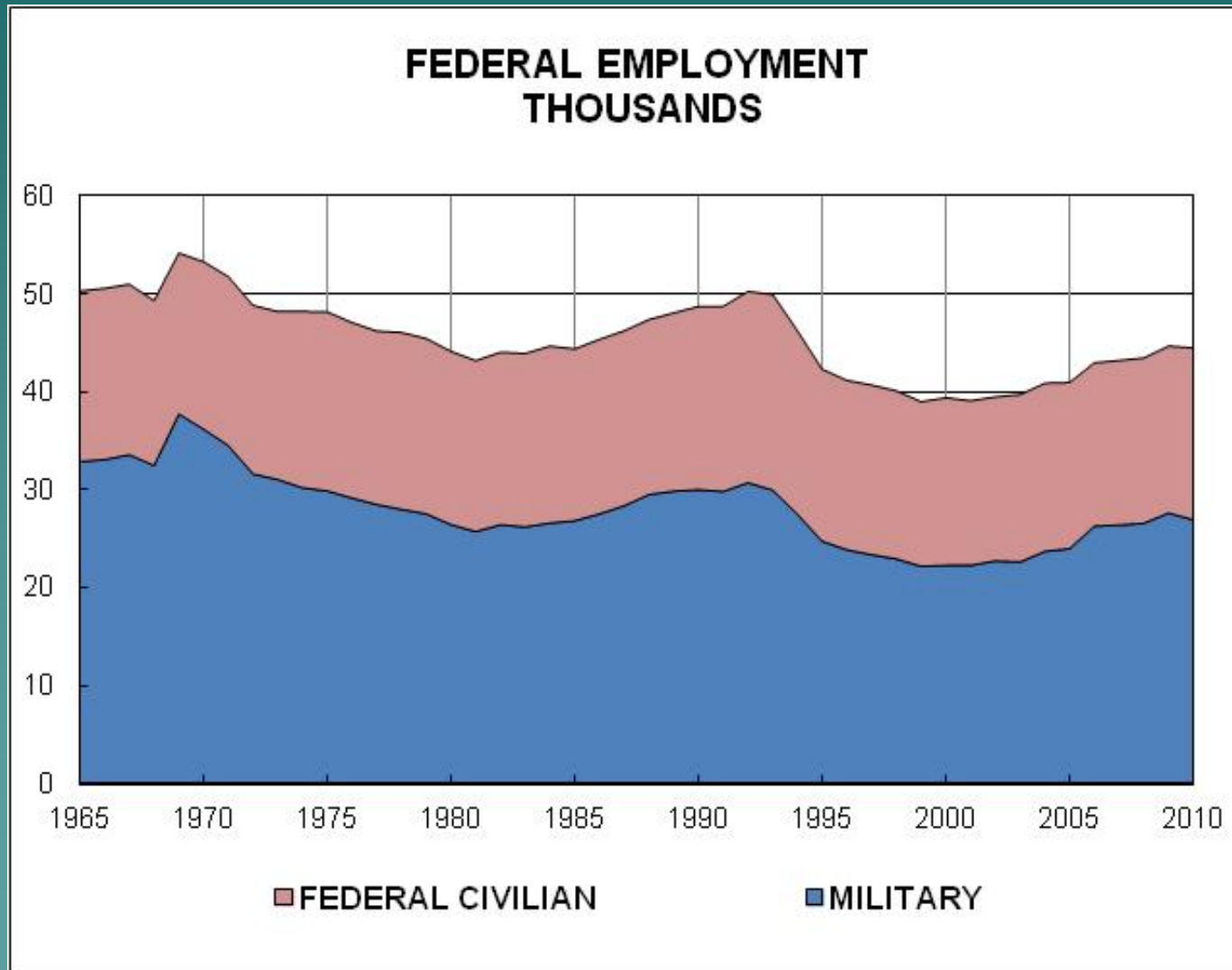


Federal Spending: Barely Visible

\$10 Billion =
\$15,000 per capita



Federal Employment



Federal Spending Composition

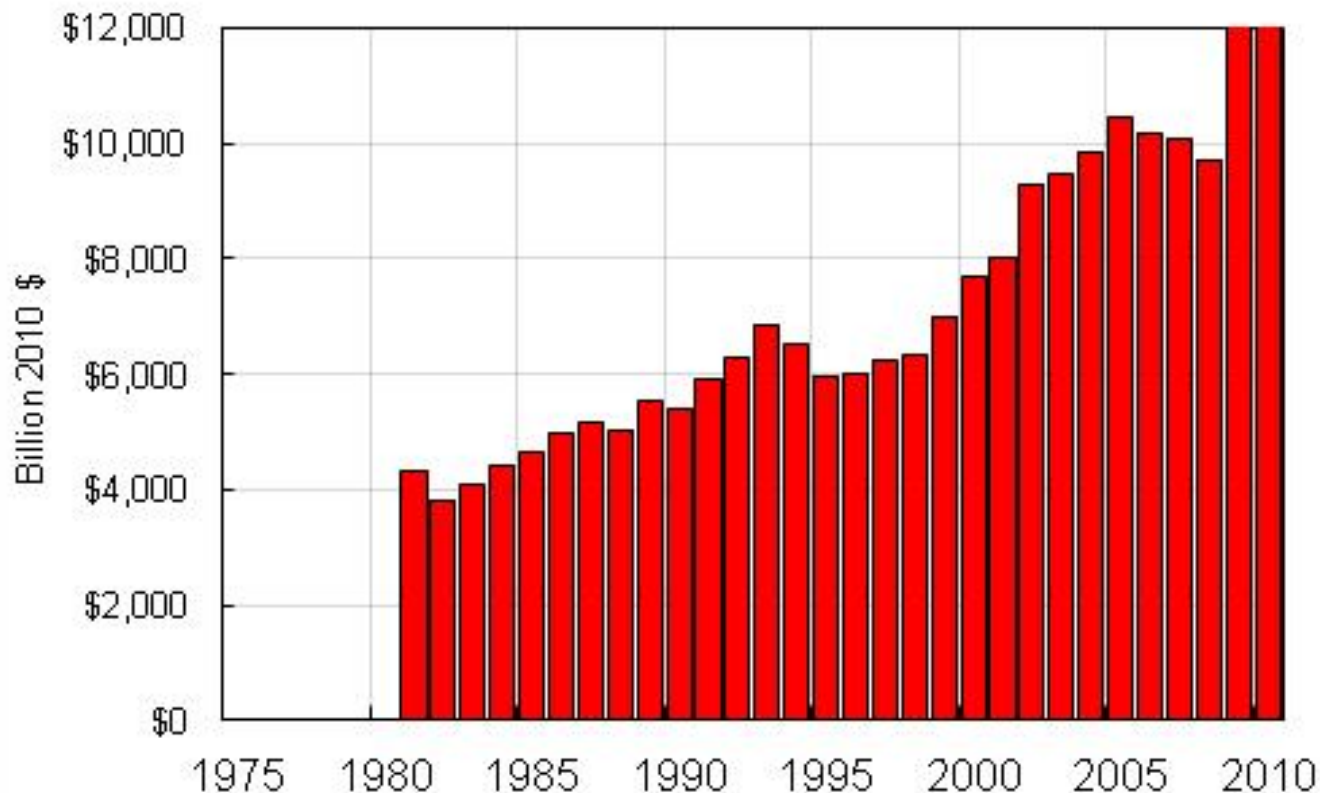
- ◆ \$2.8 Grants
- ◆ \$2.1 Transfers
- ◆ \$3.5 Defense
 - \$1.5 Wages
 - \$2.1 Procurement
- ◆ \$1.3 Civilian Agencies
 - \$.8 Wages
 - \$.5 Procurement

Largest Civilian Federal Programs in Alaska in 2005 (Million \$)

Transfers		Grants--Formula		Grants--Project		Civilian Agency	
Total	\$1,840	Total	\$1,660	Total	\$1,470	Total	\$1,230
6 Largest	\$1,566	6 Largest	\$1,419	6 Largest	\$644	6 Largest	\$996
Social Security	\$667	Medicaid	\$681	Indian Health Service	\$354	Interior	\$244
Federal Retirement (Civilian and Military)	\$325	Highway Construction	\$415	Airport Improvement Program	\$101	Homeland Security	\$223
Medicare	\$260	Indian Housing Block Grants (NAHASDA)	\$129	EPA Special Purpose Grants	\$60	Post Office	\$182
Unemployment Insurance	\$114	Impact Aid to Schools	\$95	Denali Commission	\$58	Transportation	\$158
Veterans' Compensation	\$109	TANF (Temporary Assistance for Needy Families)	\$67	Section 8 Housing	\$36	Agriculture	\$96
Tribal Self Governance	\$91	Special Education	\$32	Alaska Native Education Programs	\$35	Commerce	\$93

Federal Spending: Cutting Back

TOTAL FEDERAL FUNDS TO ALASKA



Alaska Non-Petroleum Natural Resources: 2008 Market Value (Million \$)

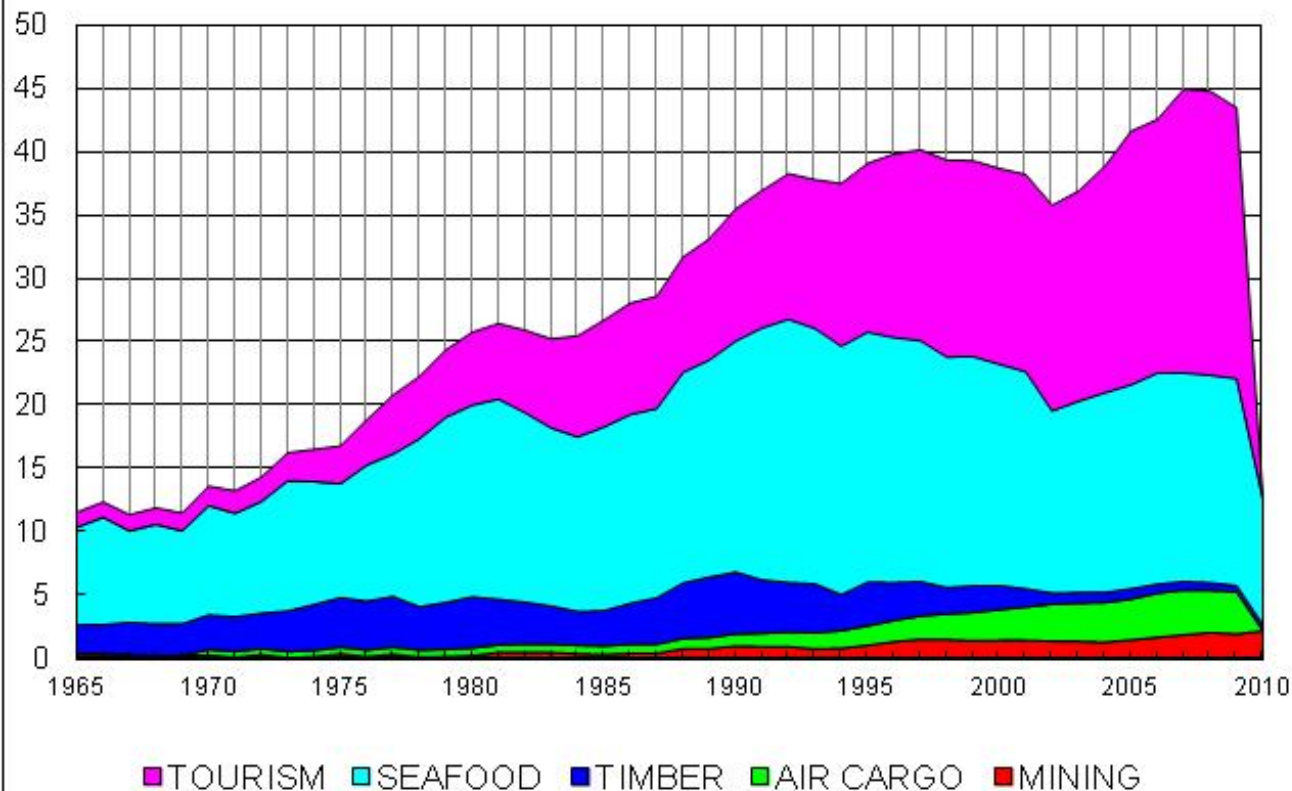
◆ Mining	\$ 2,895
◆ Seafood	\$ 1,261
◆ Timber	\$ 146
◆ Agriculture	--
◆ Tourism	\$ 1,495
◆ Retirees	\$ 1,500
◆ Air Cargo	???

Value determined at point of production except for mining.

Values in 2007 \$.

Non-Petroleum Natural Resource Employment

**ALASKA NON PETROLEUM NATURAL RESOURCE
EMPLOYMENT THOUSANDS**



Traditional Natural Resources: Mining



Mineral Production Value (Mill \$)		
	2005	2006
Zinc	\$862	\$2,003
Gold	\$190	\$336
Lead	\$115	\$184
Silver	\$85	\$130
Copper	-	-
	\$1,253	\$2,653

Zinc is used to galvanize steel. Price went thru the roof in 2006.

Traditional Natural Resources: Seafood



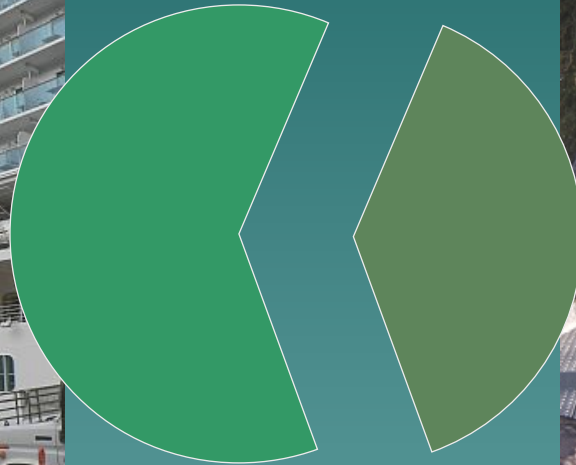
SEAFOOD: 2005 LANDED VALUE (Million \$)

TOTAL	\$1,295
Salmon	\$303
Groundfish	\$660
Halibut	\$169
Shellfish	\$148
Herring	\$15



28 thousand harvesters, 39% non resident. ??? processors, 73% non resident.

New Natural Resources: Tourism



1.5 million tourists in 2006 bring \$1.5 billion \$\$\$ with them to Alaska.

New Natural Resources: Air Cargo

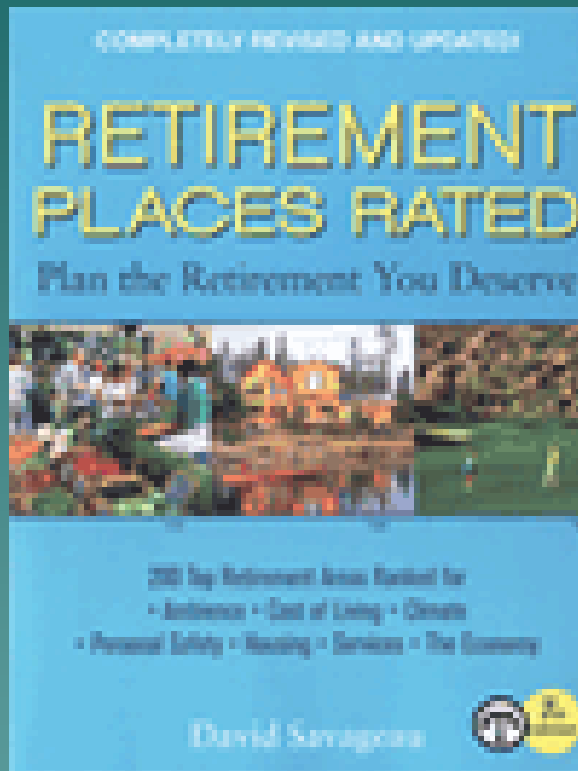
2006 CARGO TRAFFIC (Million Metric Tonnes)

Memphis	3.69
Hong Kong	3.61
Anchorage	2.80
Seoul	2.34
Tokyo	2.28



China Air alone averages 10 flights per day thru Anchorage.

New Natural Resources: Retirees



52 thousand retirees ages 60+ in 2004.
\$1.5 billion of retirement and health care \$\$\$\$.

Oil and Gas

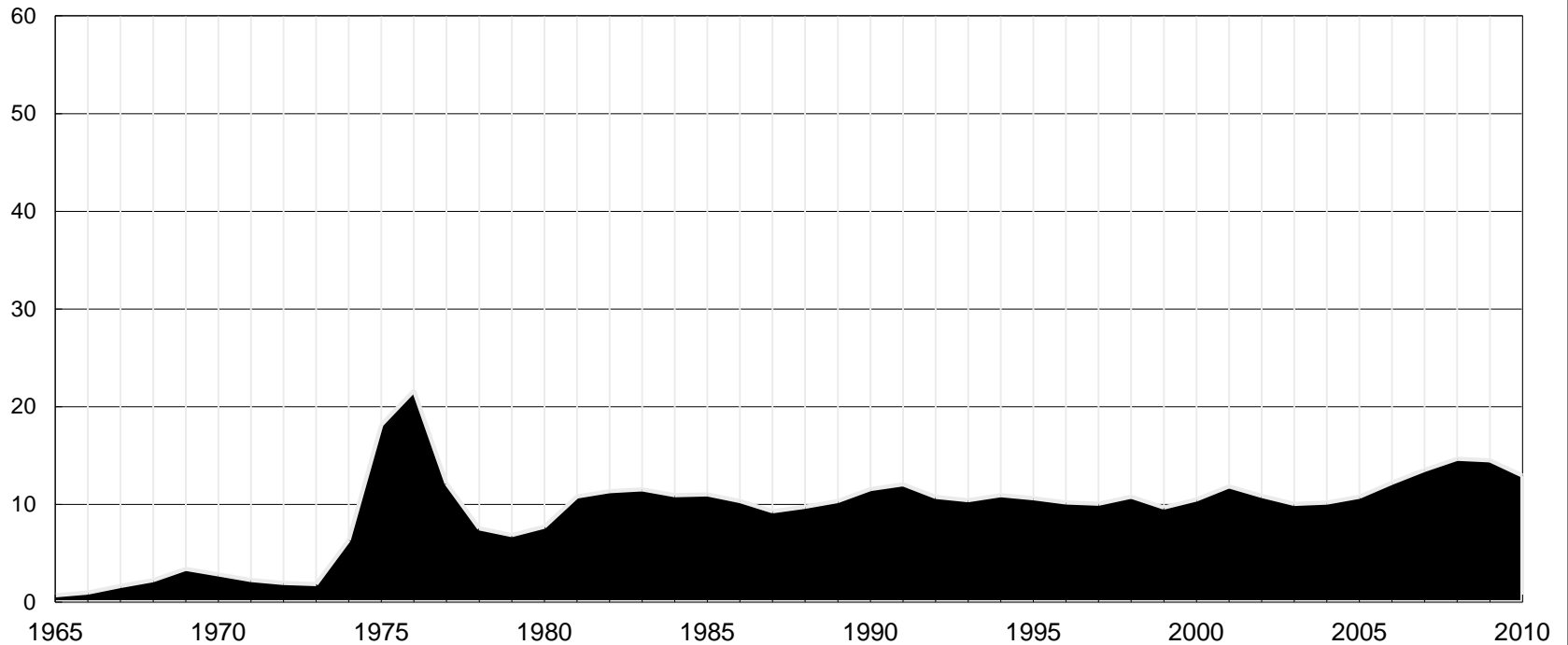
\$22 Billion



Estimate wellhead value in 2011

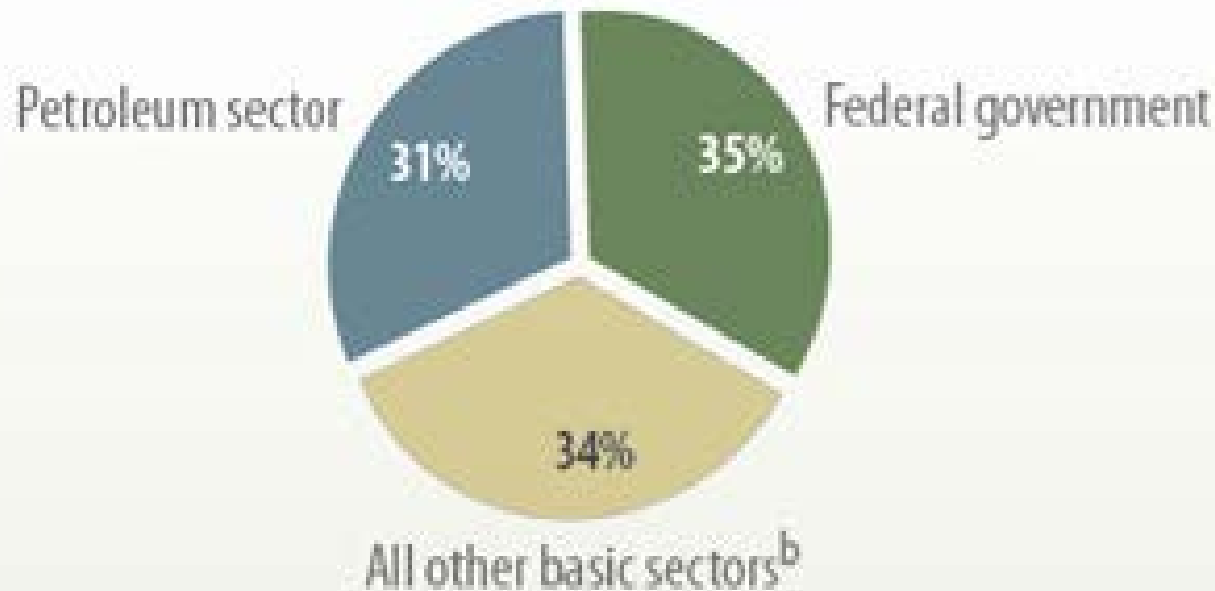
Petroleum Employment

**ALASKA PETROLEUM
EMPLOYMENT THOUSANDS**



400 Thousand Jobs

What Generates Jobs for Alaskans^a?



^aExcludes jobs held by non-residents. ^bSeafood, tourism, mining, timber, international air cargo, and personal assets from outside Alaska (primarily federal retirement benefits).

A Look Back : The Alaska Economy in 1960

- SMALL : 90 thousand jobs
- PUBLIC : ½ jobs are fed
- SEASONAL: summer private job 2 times winter
- THIN: limited support businesses
- POOR : HH income 10-20% below US avg
- UNDERDEVELOPED INFRASTRUCTURE
- LIMITED REVENUE CAPACITY

Growth of Petroleum: Oil Patch

PETROLEUM

VS

TOURISM

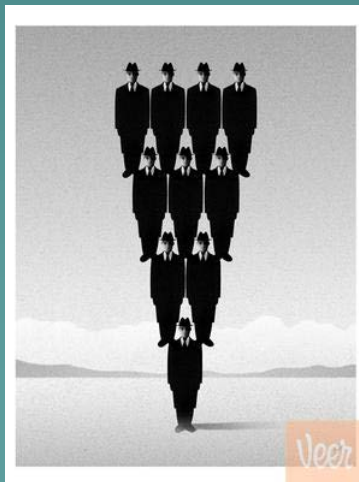


\$147K

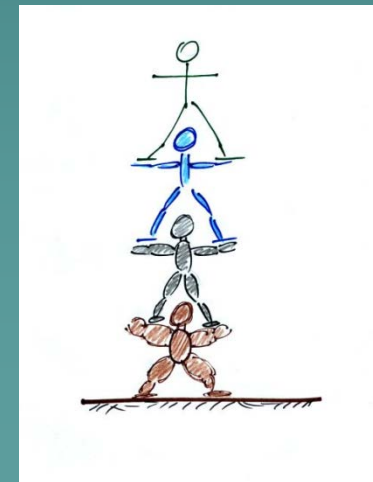


\$12K

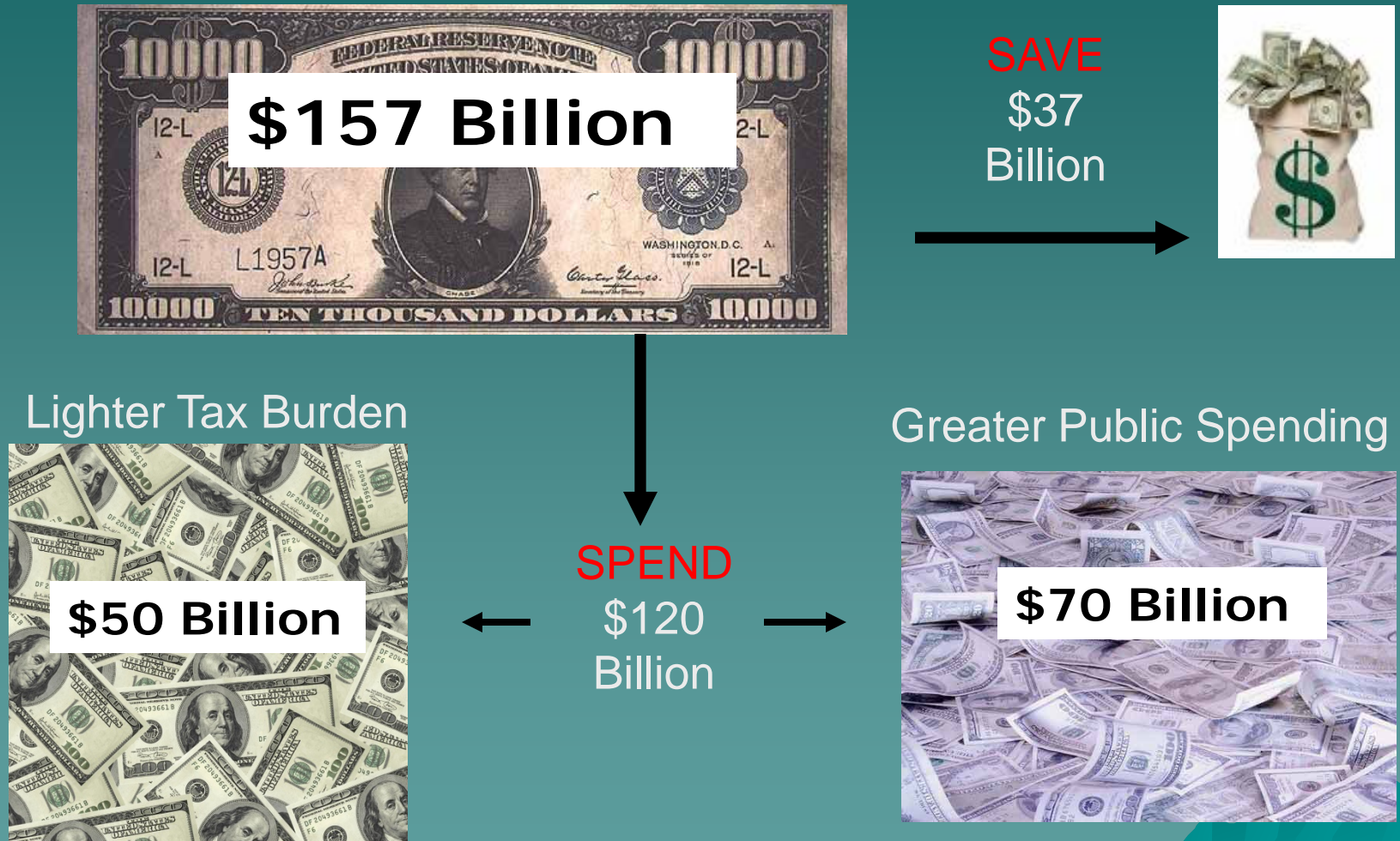
•Jobs



•Complexity



Growth of Petroleum: State Revenues



59-10 in 2010 \$

Petroleum Spinoff: Lite Tax Burden on Households

\$2,300 per capita*



* Based on national average state Income and sales tax rates in 2008.

Petroleum Spinoff: Lite Tax Burden on Resource Industries



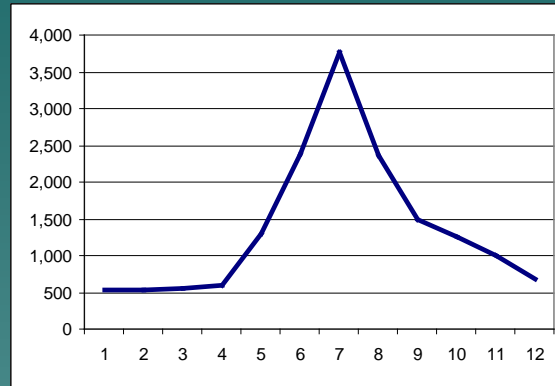
State & Local Revenues from Seafood, Tourism, Mining, Timber

Actual (avg 05-07)	\$200 mill
If Oil \$ Disappeared	\$900
Incremental Burden, no Oil \$	\$700
Increase in Tax Rate	4 X

Petroleum Spinoff: Public Spending Double US Average

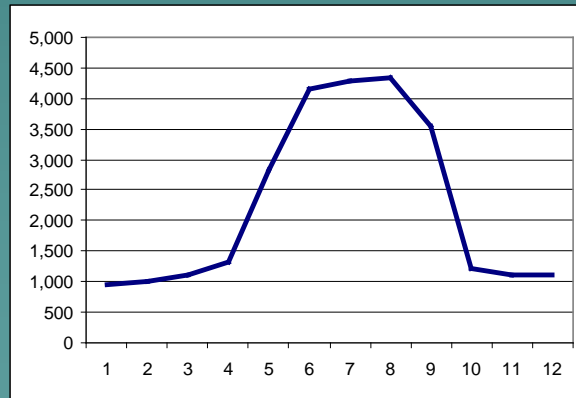
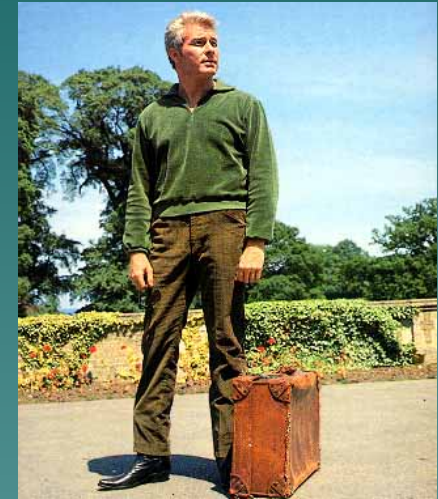
- CAPITAL SPENDING
 - Targeted Development
 - General Infrastructure
 - Household Infrastructure
- OPERATIONS SPENDING
- CAPITALIZING SPECIAL FUNDS

Petroleum Spinoff: Stability



FISHING

Bristol Bay



TOURISM

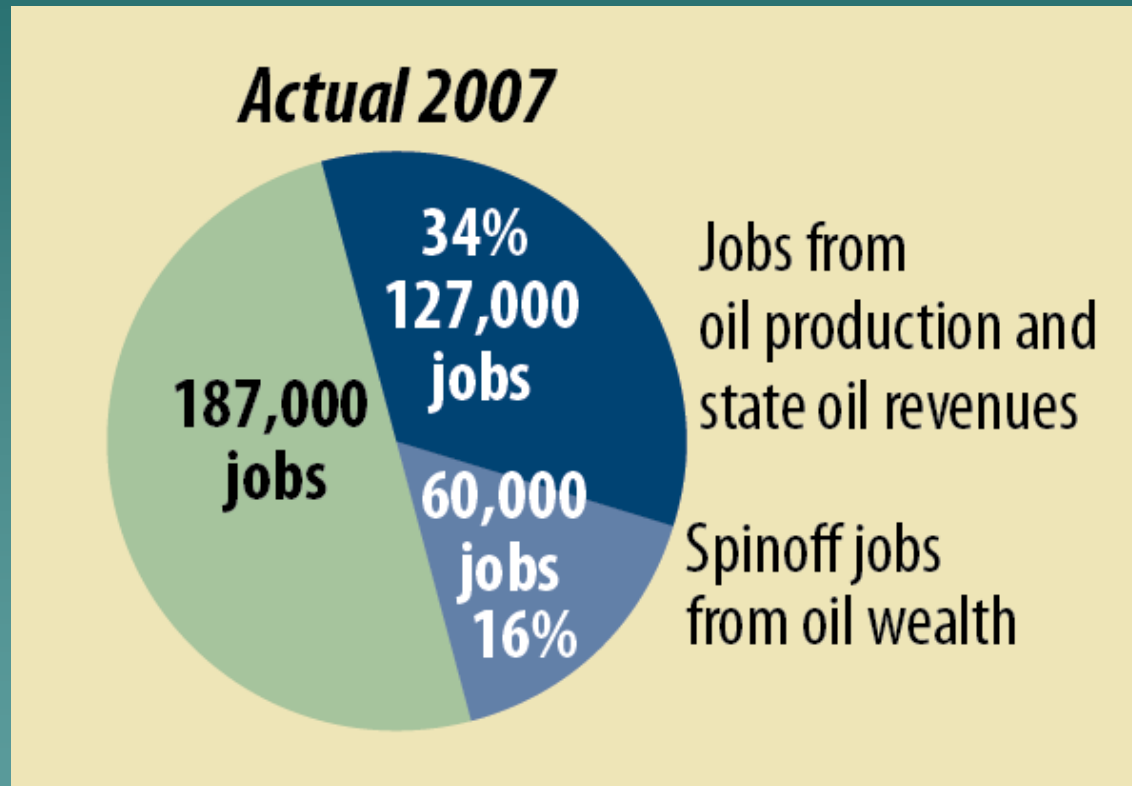
Denali Borough



The Alaska Economy Without Petroleum?

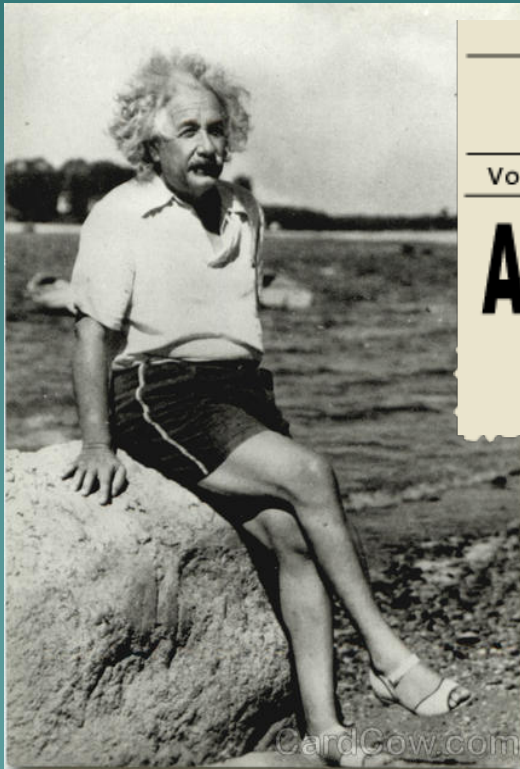


Petroleum Has Transformed the Alaska Economy



What Would Alaska Look Like Today Without Petroleum?

Gedankenexperiment



Candidates for Comparison ?

- ◆ Oklahoma
- ◆ New Mexico
- ◆ South Dakota
- ◆ Wyoming
- ◆ Montana
- ◆ Idaho
- ◆ Florida
- ◆ Nevada
- ◆ Hawaii

Maine Is Not Like Alaska



- ◆ Physically attached to Lower 48
- ◆ Federal land ownership 1%
- ◆ Native American population 1%
- ◆ Lobsters instead of crabs
- ◆ Unusual accent
- ◆ Presidential hangout

Maine is Like Alaska

- ◆ Many moose
- ◆ Few humans
- ◆ Cold
- ◆ Remote
- ◆ Independent streak



Maine and Alaska

- ◆ Fish / Tourism / Timber / Mining / Agriculture
 - ◆ Limits on sustainable harvests
 - ◆ Challenged by globalization
 - ◆ Small and declining manufacturing
 - ◆ Dependence on federal \$\$\$s
-
- ◆ Conflicting visions about use of resources
 - ◆ “Zero Sum Game” development mentality



Maine Economic History in a Nutshell

“Throughout the second half of the twentieth century, Maine has STRUGGLED to find a proper balance between resource-based industrial development and environmental protection.

The state has come to rely heavily on tourism, small manufacturing enterprises and defense-related activities and installations for much of its economic base.”

Maine Economic Performance: Some Evidence

- ◆ Gross State Product per capita: 43rd (Ak 7th)
- ◆ Job Growth: 66% (Ak 144%)
- ◆ Population Growth: 46th (Ak 5th)
- ◆ Median Age: 1st (Ak 49th)
- ◆ Housing Built Before 1939: 31% (Ak 2%)
- ◆ Median Paycheck: 77% as high as Alaska
- ◆ Projected Population Growth = 1/3 US average (Ak 30% above)

Typical Family Comparison



\$55,641	Wages	\$72,750
-\$7,077	State Taxes	\$0
\$0	Dividend	\$6,800
\$29,995	Public Spending	\$49,064
\$78,560	Total	\$128,614
	ALASKA "BONUS"	+\$50,054

The Economic Landscape: It Seems Rosy

By DAN ROBINSON, NEAL FRIED, ALYSSA SHANKS, and MALI ABRAHAMSON, Economists

Employment Forecast for 2012

A third straight year of growth expected for Alaska

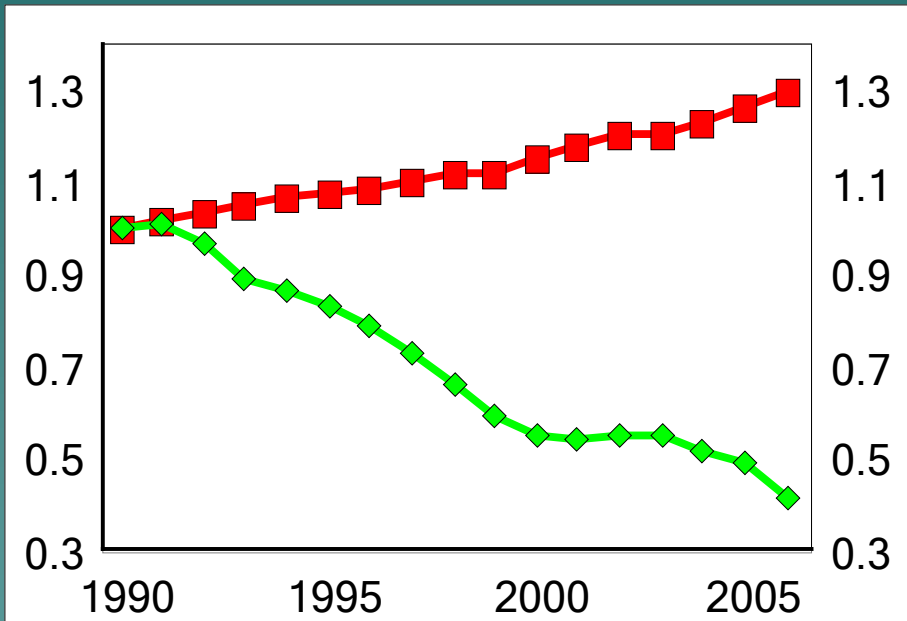
Alaska gained jobs for the second consecutive year in 2011 after ripple effects from the national and global recession ended the state's 21-year growth streak in 2009. (See Exhibits 1 and 2.) More growth is forecasted for Alaska in 2012 — a modest increase of 1.2 percent, or 3,900 jobs — but neither the global nor U.S. economies are on clear recovery paths yet, and that will dampen the Alaska outlook in the coming year.



the state's economic drivers remain guardedly healthy.

Alaska skirts Great Recession

Actual Performance Since 1990: Jobs vs. Oil Production (Index: 1990 = 1)



- ◆ 104 thousand jobs added
- ◆ Production down 2/3

Explaining The Paradox

- ◆ Federal \$\$
 - ◆ Military Expansion
 - ◆ Tourism, Mining
 - ◆ Petroleum Revenues
 - ◆ Retirees
 - ◆ Air Cargo
-
- ◆ National Economic Boom
 - ◆ Increased Labor Intensity of Petroleum Production
 - ◆ Anticipation of Gas Line, OCS, etc.
 - ◆ Support Sector Catching Up
 - ◆ Wealth Accumulation

But the Oil Barrel is Running Dry

How Much Conventional Oil Remains on State-Owned Land?

Estimated oil as of 1960: 22.8 billion barrels (100%)



1977: 20 billion barrels (87%)

2000: 10.5 billion barrels (46%)

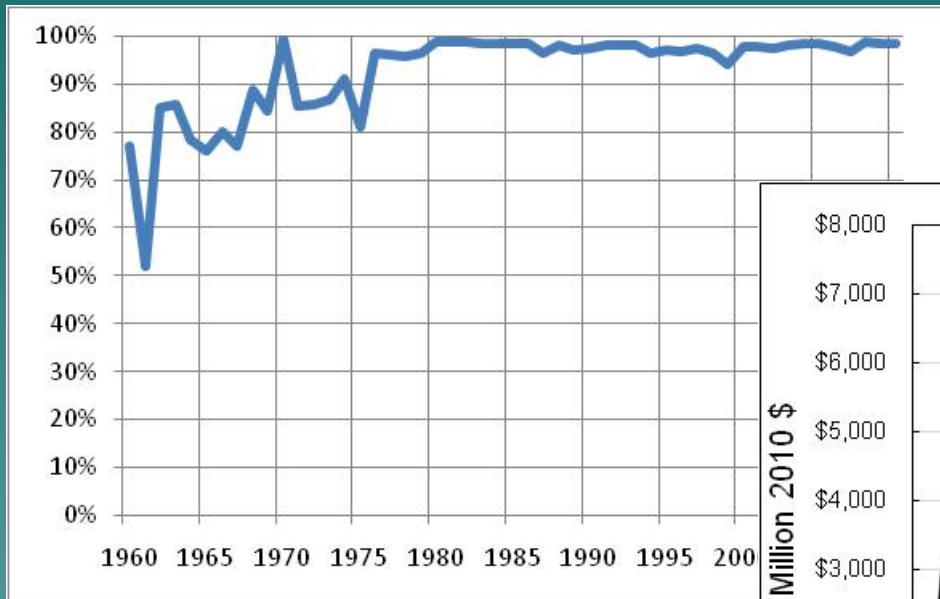
2010: 4.8 billion barrels (21%)

2020: 2.9 billion barrels (13%)

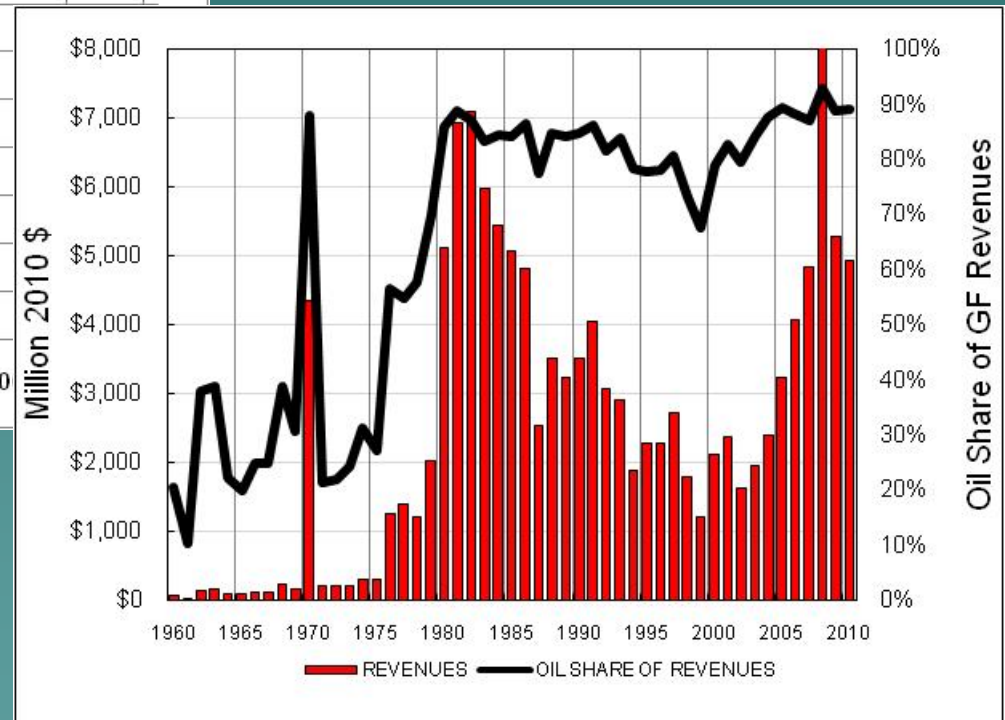
Source: Alaska Department of Natural Resources, historical production and projected future production

Over Reliance on Oil Revenues

Oil Share of Resource Revenues



Oil Share of All Revenues



Non-Petroleum Strategies for the Future

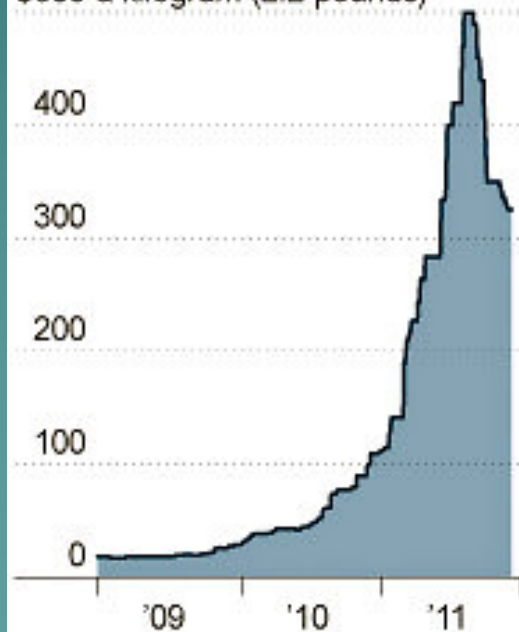
- Natural Resource Development
 - Value Added Processing
 - Economic Diversification
 - Infrastructure Investments in Power and Transportation
 - Footloose Industry
 - Renewable Energy
- 
- A stylized silhouette of a mountain range in a darker teal color, located in the bottom right corner of the slide.

Rare Earth Metal Price

Falling Prices

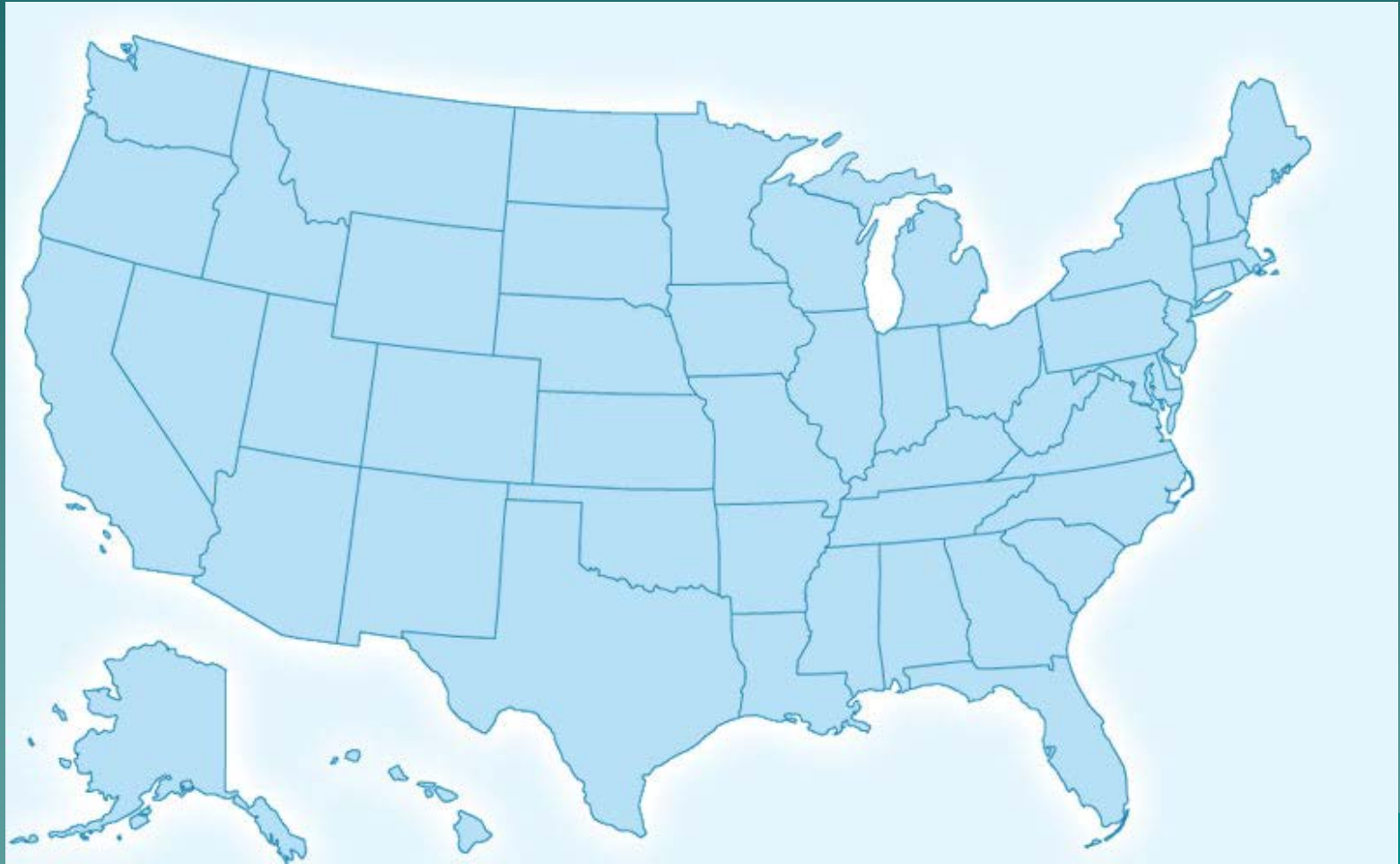
Prices for neodymium and other rare earth metals have tumbled this autumn as supply has caught up with demand.

NEODYMIUM PRICE, OUTSIDE CHINA
World prices for 99 percent purity
\$500 a kilogram (2.2 pounds)



Source: Asian Metal

Alaska: An Island Economy



Replace \$7.5 Billion in Petroleum Revenue with Taxes on Other Resources



\$10,000 /
OZ. GOLD



\$5,000 /
TOURIST



\$50 /
SALMON

*Estimate for FY 2011



"Please God, give us
another oil boom, we
promise not to piss it
away this time"

Our Prayers Are Answered!

US Avg Wellhead Price (2010 \$)



Recoverable Petroleum in the Ground (???) = Jobs



	OIL (Billion Barrels)	GAS (TCF)
ANWR/OCS/NPRA	33.6	148.8
GAS ON STATE LAND	-	37.5
UNCONVENTIONAL	?	?
OIL ON STATE LAND	4.5	-

Our Petroleum Nest Egg (Billion \$)



Earnings

\$5 /
Year

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